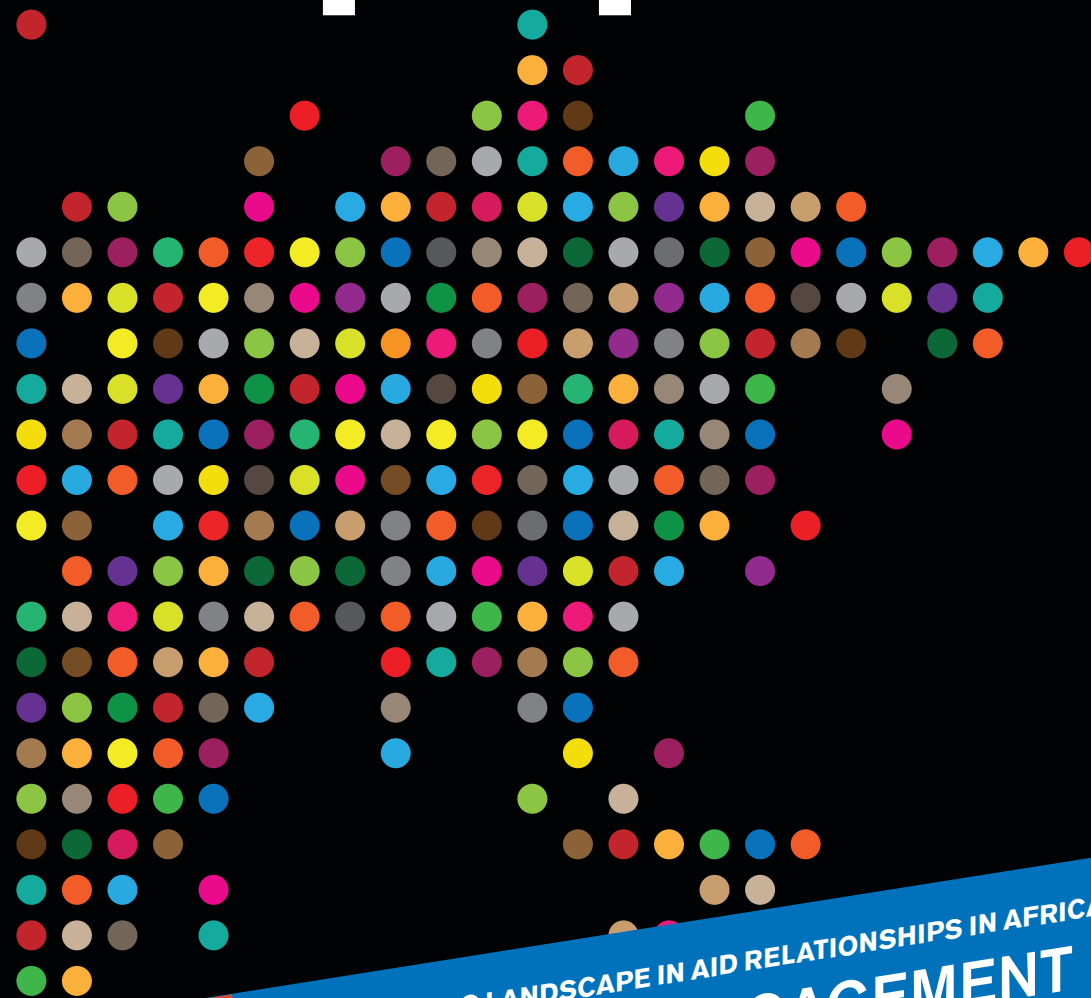


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THE CHANGING LANDSCAPE IN AID RELATIONSHIPS IN AFRICA:

CAN CHINA'S ENGAGEMENT MAKE A DIFFERENCE TO AFRICAN DEVELOPMENT?

MACHIKO NISSANKE AND MARIE SÖDERBERG



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THE CHANGING LANDSCAPE IN AID RELATIONSHIPS IN AFRICA: CAN CHINA'S ENGAGEMENT MAKE A DIFFERENCE TO AFRICAN DEVELOPMENT?

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ABSTRACT

This paper examines potential effects of China's new "offensive" on African development through the lens of the changing landscape of aid relationships in Africa. After discussing domestic imperatives behind China's drive for deeper engagements with Africa, we present the model of "economic cooperation" as practised by Japan in Asia through a trinity of aid, investment and trade. It is this model that is most clearly visible in the modality of China's aid, though operational details differ significantly between Japanese aid and Chinese aid. We also discuss why Japan itself has not followed this modality so much in its engagement with African countries as elsewhere. The paper then presents a critical review of the discourse of African economic development examined through an analysis of the aid relationships with the traditional donors. From this specific perspective, we examine the scale and modality of China's economic cooperation and its potential impacts on African development. We suggest that Chinese engagement has an important potential to fill

some critical gaps left by traditional donors, but it is also presenting new challenges and problems for African policymakers and stakeholders. As concluding remarks, we discuss the potential opportunities and challenges African countries face as a result of China's decisive entry as a new partner for economic development and the dynamically evolving economic interface between China and Africa.

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INTRODUCTION

Over the last decade, the Chinese government has intensified its efforts in forging a new partnership with Africa as part of the “Going Out” strategy adopted in 2000. The resulted “recent” return to Africa has been marked by the periodical Forum on China-Africa Cooperation (FOCAC) inaugurated in 2000 and convened every three years to review the past implementation of economic cooperation, discuss the joint strategy and adopt an action plan. At the highly visible China-Africa Summit held in Beijing in 2006, attended by 48 heads of state of the 53 members of the African Union, the Chinese government promised mutually beneficial economic cooperation and pledged to double its aid to Africa to US\$5 billion within three years (2006-2009). At the most recent FOCAC, held in Sharm el-Sheikh in Egypt in November 2009, China again pledged to double its concessional loans to Africa to \$10 billion in 2010-2012, when Africa faces the prospect of dwindling aid flows from OECD Development Assistance Committee (DAC) countries in the aftermath of the global financial and economic crisis of 2007-2009.

This recent wave of China's proactive engagement with Africa through a mix of increased aid, trade and investment, and the resulting emergence of China as a new strategic economic partner for African development, have attracted a considerable amount of attention and debate, receiving mixed reactions in policy circles across the world. Though the actual amount of aid provided by China to Africa is still small compared to the volumes provided by the traditional donors – i.e. the members of the DAC – it has been steadily increasing over a short span of time. Moreover, it is the form of China's engagement in Africa as well as its sudden surge in activities and the timing of its “return” that has attracted wide-ranging comments from different quarters, echoed in the international press worldwide.

The general tone of the comments that initially appeared in the Western press is one of high anxiety, expressed in the assertion that China's active engagement with African governments would undermine the interests of the “international community”. It has been argued that China's economic aid, provided with no conditionality attached on economic and governance reforms, would be particularly harmful to Africa's future by allowing repressive, autocratic regimes such as those of Sudan and Zimbabwe to survive and continue suppressing democratic movements and the popular voice in their countries. Serious concerns have been also raised in relation to China's own poor track record in environmental and health and safety regulations in the construction and mining sectors. Further, China's thirst and aggressive drive for natural resources and oil in the continent in return for “economic cooperation” through aid, trade and investment is often viewed with suspicion, and termed as nothing more than a new imperialism or neo-colonialism now being exercised from Asia to perpetuate and reinforce the existing international division of labour which is disadvantageous to Africa. Moreover, as Chinese aid for infrastructure projects is provided in the form of preferential loans, the Western donors have accused

China of in essence free-riding on the cancellation of US\$43 billion debt granted to the heavily indebted poor countries (HIPC)s through the Multilateral Debt Relief Initiative (MDRI) in 2005. They have raised questions about the sustainability of Africa's new debt obligations to China and other non-DAC members.¹

In Africa, while China's arrival as a strategic partner and provider of aid is generally welcomed by African governments as a countervailing force to the dominance of the Western approaches to and policy advice on economic development and governance, China's ever-increasing presence in many aspects of their economic lives has also stirred very mixed reactions, with some legitimate concerns. This is understandable, as many domestic industries and economic activities such as clothing and textiles face hard competition from cheaply priced imported goods and services from China. There is also anxiety arising out of the non-transparency surrounding the details of the deals the Chinese government strikes with many African leaders, as well as the way in which many Chinese-funded projects have been negotiated and implemented on the ground. In response to various criticisms, often expressed in fear and anxiety, Chinese officials and scholars emphasize that China's engagement with Africa is built on the genuine concept of partnership based on "political equality, mutual trust, economic win-win cooperation and cultural exchanges".²

Since the ever-expanding China-Africa relationship may emerge as one of the critical building blocks in shaping the global economic and geopolitical landscape in the years to come, there is a great need for a balanced evaluation of the China-African relationships beyond the rhetorical reactions often found in the popular press. In responding to such demand, a number of reports and academic works have been published, in which we can find more profoundly researched materials and analyses of the rapidly changing relationship by more informed observers and researchers.³

Our analysis in this paper is focused on the potential effects of China's new "offensive" on African development through the lens of the changing landscape of aid relationships in Africa. We suggest that China's economic cooperation with Africa is, to a certain extent, mediated by China's own development experience since the end of the 1970s, where

1 See G24 Secretariat, 'Financing Development in Africa: The Growing Role of Non-DAC Development Partners', G24, 2008 and Reisen, H., 'Is China Helping Improve Debt Sustainability in Africa?', G24 Policy Brief, 2007 and Reisen, H. and S. Ndoye, 'Prudent versus Imprudent Lending to Africa: From Debt Relief to Emerging Lenders', OECD, Paris, 2008 for a detailed discussion on the effect of increased provision of concessional aid from China and other non-DAC members on the debt sustainability of HIPC)s.

2 Extracts from the official communiqué released at the Summit meeting of FOCAC in November 2006. See also Largerkvist, J., 'Chinese Views on African Development and Sino-Africa Cooperation', Contemporary Chinese Thought, Fall 2008, Vol. 40, No. 1. 2008 for Chinese perspectives on the evolving China-Africa relationships.

3 See, for example, Alden, C., D. Large and R.S. de Oliveira (eds), China Returns to Africa: A Rising Power and a Continent Embrace, Hurst & Co., London, 2008 and Alden, C., China in Africa, Zed Books, London, 2007 and Bräutigam, D. A., The Dragon's Gift: The Real Story of China in Africa, Oxford University Press, November 2009 and Broadman, H. G., Africa's Silk Road: China and India's New Economic Frontier, World Bank, Washington, 2007 and Davies, M., How China delivers development assistance to Africa, Centre for Chinese Studies, University of Stellenbosch, February 2008 and Davies, P., China and the end of poverty in Africa: Towards mutual benefits?, Sundbyberg: Diakonia, 2007 and Foster V., W. Butterfield, C. Chen and N. Pushak, Building Bridges: China's Growing Role as Infrastructure Financier for Africa, World Bank, 2008 and Largerkvist, J., 'Chinese eyes on Africa: Authoritarian Flexibility versus democratic governance', Journal of Contemporary African Studies, Vol. 27, No. 2 2009, pp. 119-134 among the growing literature in the field.

Japan has played a part as an important bilateral aid donor and a model for its economic development. Is China transferring to Africa the model of aid that Japan used in Southeast Asia? Now, in discussing China's aid to Africa, a question is naturally raised as to why a still relatively poor developing country like China would give aid to African countries. Hence, we present several main domestic conditions that lie behind China's move.

With these issues in mind, the paper is structured as follows. In Section 2, we discuss the domestic imperatives – both political considerations and economic factors – that have given rise to China's drive to deepen the relationship with Africa. Section 3 presents the model of “economic cooperation” as practised by Japan in Asia through a trinity of aid, investment and trade, since it is this model that is most clearly visible in the modality of China's aid, though operational details differ significantly between Japanese aid and Chinese aid. We also discuss why Japan itself has not followed this modality in its engagement in Africa. Section 4 presents a critical review of the discourse of African economic development examined through an analysis of the aid relationships with the traditional donors. From this specific perspective, Section 5 examines the scale, modality and developmental impacts of China's economic cooperation. We suggest that Chinese engagement has an important potential to fill some critical gaps left by traditional donors, but it is also presenting new challenges and problems for African policymakers and stakeholders. Section 6 offers concluding remarks by weighing potential opportunities and challenges African countries face as a result of China's decisive entry as a new partner for economic development and the dynamically evolving economic interface between China and Africa.

DOMESTIC IMPERATIVES BEHIND CHINA'S DRIVE

The People's Republic of China after its foundation in 1949 quickly established diplomatic relations with many African states. This was an ideological demonstration by Mao Zedong to show his support for the fight against imperialism and colonialism. It was also a way to counter the diplomatic recognition of Taiwan.⁴ In 1956 China launched its first programme of aid to Africa. A significant aim was to knit Africa and other developing countries into a third world alliance with China to counterbalance the superpowers and the developed North.⁵ During the Cultural Revolution China's aid to Africa expanded. One of the most famous projects was the Tanzania–Zambia railway (1967–1975), built during a period of considerable domestic hardship in China itself and a showcase for Mao of his policy of internationalism. One of the direct pay-offs was the support of a large number of developing countries for the PRC's joining the UN, taking the seat in the Security Council that was held by Taiwan until 1971.

After taking control of the country's politics, Deng Xiaoping from 1979 cut aid considerably. He was stressing China's own economic development and China instead became a recipient of foreign aid itself. The rapprochement with the USA and Japan in the 1970s made China less isolated and aid was no longer important as a tool for winning new allies. Instead of focusing on an ideological leadership role among third world countries, China concentrated on its own economic development during this period.⁶

A new turning point in Chinese relations with the developing world came with the Tiananmen Square incident in 1989. Intense criticism from and sanctions imposed by governments in Western countries left China out in the cold and hurt its economic development. In contrast to the West's involvement in what PRC leaders considered their internal affairs, some leaders of African countries expressed their support for the Chinese government's handling of the situation.⁷ The Chinese leadership recalled that Africa can be a very useful support constituency, and relations intensified again. The shift was initially driven by a common stand against Western hegemony and the promotion of “western-centric” norms of human rights and liberal democracy.⁸

4 Centre for Chinese Studies, Stellenbosch University 'China's Engagement of Africa: Preliminary Scoping of African Case Studies', 2007, p. 1. A research report prepared for Rockefeller Foundation.

5 Tjonneland, E. N., Brandtzaeg, B., Kolås, Å., and Le Pere, G., *China in Africa: Implication for Norwegian Foreign and Development Policies*, Norway: CMI, 2006, p. 8.

6 Liping, H., 'The Current Policy Discussion on China's Aid Policy and Organization', paper presented in Oslo at a conference organized by the Norwegian Ministry of Foreign Affairs, 5 December 2006.

7 Taylor, I., *China and Africa*, London and New York: Routledge, 2006, pp. 62–65.

8 Taylor, I., 'Unpacking China's Resource Diplomacy in Africa' in *Current African Affairs* No. 35, Uppsala, Sweden: Nordiska Afrikainstitutet, 2007, pp-11–12.

It was, however, also driven by the wish of the leaders to promote China's own economic growth. Sustainable growth was a prerequisite of keeping domestic opinion happy and for the communist party to be able to stay in power. The living standards of the general Chinese public had to be improved.⁹ During his visit to six African countries in 1996, President Jiang Zemin signed a number of economic and technical cooperation agreements. Moreover he sought a new commercially-based, rather than ideologically motivated, partnership with certain African countries through the confirmation of Africa's economic rather than revolutionary potential. In October 2000 a Program for China-Africa Co-operation in Economic and Social Development was adopted at a Sino-African ministerial-level conference in Beijing.

This came at the same time as the Chinese economic policy of "Going Out" was adopted in 2000. China was suffering from overproduction and market saturation in various sectors such as textiles, footwear and electronics, and needed new markets. In addition the opening up of China's own market after its successful accession to the WTO in 2001 meant that Chinese companies no longer had the market monopoly they once enjoyed and needed to expand into new areas.¹⁰

Since then there has been a step increase in Chinese FDI (foreign direct investment) abroad. According to the Chinese 11th five-year plan (2006-2010), China was set to invest US\$60 billion abroad during this period. The "Going Out" strategy was partly also motivated by China's large trade surplus and capital accumulation. There was a need to take away the pressure on the Chinese Yuan. Most of these investments have gone to Asia and the US, but in connection with this there has been a steep increase in both FDI and foreign aid to Africa. President Hu Jintao in the action plan announced at the Beijing FOCAC in 2006 promised to double assistance to Africa by 2009. The action plan stipulates that US\$3 billion of preferential loans and US\$2 billion of preferential credits should be provided on favourable terms, and a China-Africa Development Fund set up to encourage Chinese companies to invest in Africa should have reached US\$5 billion. At the most recent FOCAC meeting in November 2009, China pledged to double its concessional loans to Africa to US\$10 billion over the period 2010-2012.¹¹

At the same time, Africa is also seen as a good first step for Chinese companies in the sense that the market there is not as sophisticated as it is in many other places, and it can be seen as a good practice ground for Chinese companies going abroad. Chinese concessional loans are usually tied assistance. Procurement is made from Chinese companies, and in that sense they also profit from the aid business.¹²

⁹ Interview with Wang Hung CIIC, Beijing, November 2007.

¹⁰ Centre for Chinese Studies, Stellenbosch University, 'China's Interest and Activity in Africa's Construction and Infrastructure Sectors', a research paper prepared for DFID, 2007, p.12.

¹¹ For both the Beijing action plan and the Sharm El Sheikh action plan see the FOCAC homepage, www.focac.org/eng/ (accessed 12 September 2010).

¹² Kobayashi, T., 'Evolution of China's Aid Policy', JBIC Institute, Working Paper, No. 27 2008, p. 16.

It is not only Chinese products but also people that are going to Africa. Such migration has a long history. During the second half of the 19th century hundreds of thousands of Chinese, hard hit by severe political and economic conditions at home, went to work on the sugar plantations in European colonies as well as in the mines in South Africa.¹³ Roughly 150 000 Chinese workers went to Africa to work on projects to develop agriculture or build major infrastructure over the period 1960-1980. These workers were closely supervised by the government and returned home after a few years. Since the emigration laws were liberalized in 1985 their number has increased significantly.

The number of Chinese in continental Africa in 2007 was estimated to be somewhere between 270 000 and 510 000 people. Most of them are living in South Africa, followed by Nigeria as the second most popular spot.¹⁴ The number of Chinese companies in Africa is estimated to be about 1 600, among which about 100 are reported to be state-owned companies.¹⁵ State-owned companies are active in, among other fields, infrastructure development, and employ Chinese contractual migrant workers. At the end of contracts most of the personnel go home but there are also several examples of them choosing to stay on, starting their own private companies.

To fully understand the system with contractual migrant workers, the labour dynamics that exists within China must also be understood. There are over 100 million migrant workers from rural areas in Chinese cities supplying approximately 80 % of construction labour. There is an oversupply of labour. They work under hard conditions and are poorly paid by global standards. If they agree to go abroad they can expect a salary increase of the order of between 30 and 400 %, which makes such work look attractive.¹⁶

There are two other groups of migrants to Africa. The first group represents so-called "entrepreneurial migration". This is not to Africa exclusively: in conjunction with China's rising production of consumer goods, Chinese shopkeepers are now found all over in Europe and North America as well as in Southeast Asia where this phenomenon is much older. The same settlement pattern, that is the opening of wholesale centres to supply retailers, can be seen in Africa. Besides this there are also a number of retailers found in the principal cities and even in middle-sized and smaller towns. These usually trade in goods imported exclusively from China. The second group is the so-called transit proletarian migrants who want to escape from poverty at home. They go to Africa because it is easier to get in there than to Europe, which is most often their preferred destination. While waiting to get to Europe, they stay in Africa. The geographical origin of both these categories is most often

¹³ Ma Mung Kuang, 'The New Chinese Migration Flows to Africa', *Social Science Information* 2008;47 (online version can be downloaded at: <http://ssi.sagepub.com/cgi/content/abstract/47/4/643>) 2008, pp. 643-659.

¹⁴ Ma Mung Kuang, 2008, pp. 643-659.

¹⁵ www.focac.org/eng/zfgx/jmhzt/1723118.htm (accessed 12 September 2010).

¹⁶ Centre for Chinese Studies, Stellenbosch University, 'China's Interest and Activity in Africa's Construction and Infrastructure Sectors', a research paper prepared for DFID, 2007.

the traditional provinces of emigration in southern China, provinces in the Northeast or large urban areas such as Beijing and Shanghai.¹⁷

Another domestic Chinese motivation behind the increased cooperation with Africa was the abundance of natural resources on the African continent. China's need for raw materials, including metals and oil, increased substantially with its economic development. While historically China relied on coal for most of its energy needs, its demand for oil has increased enormously and it has now become the second-largest consumer of oil in the world after the United States.¹⁸ A forecast by the IEA (International Energy Agency) predicts that Chinese imports of oil will grow from 3.5 mb/d in 2006 to 13.1 mb/d in 2030.¹⁹ David Zweig and Bi Jianhai suggest that the need to secure natural resources, such as oil, metal or timber, is what is driving Chinese foreign and assistance policy towards Africa.²⁰ State-controlled companies have been encouraged to explore and seek contracts with countries that produce oil, gas and other resources. The Chinese government courts the governments of those countries with diplomacy, trade deals and forgiveness of debts. Looking at the flows of Chinese economic cooperation with Africa, some of the most resource-rich countries such as Angola, Nigeria, Sudan, Tanzania and Zambia are at the top of the list.²¹ This process is not centrally driven by the Chinese state alone. As the liberalization of the Chinese economy has progressed it has become much more difficult for the central authorities to control the diverse activities that various Chinese companies (state-owned and private), as well as individual merchants, are engaged in, in Africa or elsewhere.

Finally, compared to Southeast Asia, where anti-Chinese feelings can be a problem due to the already strong ethnic-Chinese presence and influence over the economic sector, and where anti-Chinese riots also occurred in several countries in the region during and in the aftermath of the Asia crises in 1997-1998, Africa presented China with a "blank spot" on the world map. At the same time, in Africa there was a great deal of scope for Chinese investment to be greatly appreciated, since Chinese aid is provided within the framework of economic co-operation as part of a package together with a marked increase in trade and investment flows.

In contrast, Western aid flows are typically not accompanied by significant flows of foreign direct investment. Indeed, historically foreign investment from the West has been limited more or less to the extractive industries in Africa. Investment risks in other sectors are considered to be too high for foreign private investors. Hence, FDI is generally scarce and concentrated on natural resource extraction, with little of the economy-wide spill over effects and dynamic externalities that would be conducive to a process of cumulative causation for broader-based economic development. This paucity of investment in Africa has presented an opportunity for China to engage with the continent on the promise of delivering mutual benefits.

¹⁷ Ma, Mung Kuang, 2008 pp. 643-59.

¹⁸ Hansson, S., 'China, Africa and oil', Council on Foreign Relations, June 6 2008, www.cfr.org/publication/9557/

¹⁹ OECD, International Energy Agency, Fact Sheet China, WEO 2007.

²⁰ Zweig, D. and Jianhai, B., 'China's Global Hunt for Energy', Foreign Affairs, September/October 2005.

²¹ Centre for Chinese Studies, Stellenbosch University, 2007.

ECONOMIC COOPERATION AS THE EAST ASIAN MODEL OF AID

The Chinese government is often quick to point out that China is a developing country itself and carries out its aid to Africa within the framework of South–South cooperation which encompasses broader spheres of cooperation, both commercial and non-commercial economic cooperation as well as cultural and other exchanges. There are no standardized Chinese criteria for what is to be considered as aid, as there is in the DAC. Furthermore, China consciously avoids using the language of donor and recipient but prefers to talk about mutual cooperation. Still, as China is an aid recipient itself, its concept of aid is influenced by its own experience and by the Japanese model of aid as it was practised both in China and in Southeast Asia in the 1980s and 1990s. Yet it should be emphasized that China's engagement in Africa today is very fragmented and it does not follow the Japanese model of aid as implemented in Asia in its operational details. Nevertheless, there are a number of similarities in the chosen modality of aid delivery at a more general level.

One feature of Japan's considerable impact on economic development in Southeast Asia was that its aid, mainly provided in the form of concessional loans supplied together with technical assistance and grant aid, was accompanied by substantial foreign direct investments from Japanese companies and the activities of large trading houses. These were involved in all three parts of what was labelled as the Japanese model of economic cooperation, which consists of: (1) official development assistance (ODA) – foreign aid as defined by the DAC; (2) other official flows – credits that were below market rate but not concessional enough to qualify as aid; and (3) private flows. The overall impact of this concentration of different Japanese activities in various sectors was clearly greater than it would have been if there had been just a single modality such as grant assistance in operation.²² In the past, there was no single independent aid agency in Japan.²³

In the case of Chinese aid too it is business firms that use aid funds provided through various aid schemes and engage in implementing various projects. What is unique in the Chinese case is that these firms are often state-owned companies. Since they do not have to face pressure from shareholders, they can act to advance Chinese foreign

²² See for example King, K., 'China's Aid to Africa: A view from China and Japan', paper presented at a seminar, JICA, Tokyo, 2007 for similar arguments.

²³ The establishment of the New JICA through a merger of JICA and the Japanese Bank for International Cooperation in 2008 meant that Japan now has one single agency for foreign aid.

policy objectives.²⁴ As was the case in Japan, there is no single aid agency in China today. Although the Department of Aid to Foreign Countries under the Ministry of Commerce is responsible for the overall policies, the Ministry of Foreign Affairs and Ministry of Finance also hold central positions and the three main ministries cooperate with more than 20 other ministries and commissions that are involved in aid.²⁵

Another characteristic of Japanese ODA was a heavy concentration on building economic infrastructure and a belief in “self-reliance” and economic development through export-oriented industrialization and enhancing foreign currency-earning capacity.²⁶ Japanese aid was request-based and there was a policy of trying to stay away from domestic policy issues in the recipient countries. This can to a certain extent be compared with the Chinese principle of “non-interference in internal affairs”.²⁷ In the early days of its ODA policy, Japan strongly emphasized its own development experience and the importance of a strong state and industrialization. It had relied heavily on Japanese experts in technical cooperation in Southeast Asia, something which is very much echoed in the Chinese technical assistance with the use of all the Chinese experts in Africa today. Two other characteristics of Chinese aid in Africa are that it is primarily bilateral and that it is highly tied to Chinese products and to Chinese companies. The objectives are “mutually beneficial”, that is, they are to help China's own development as much as that of its developing country partners.

However, these similarities in the general modality mask quite big differences between Japan's aid in Southeast Asia in the earlier decades and China's contemporary operations in Africa. Because of the prevailing strong anti-Japanese feeling at the time, due to the legacy of the World War II in the region, Japanese aid was managed with extreme care and with sensitivity towards the popular opinions prevailing in recipient countries. Furthermore, the domestic factors behind Japan's aid in Southeast Asia are very different from those behind China's engagement in Africa today, as discussed in Sections 2 and 5. The Japanese economy had already reached the mature stage of economic development in the 1970s and 1980s, when the aid programme in Southeast Asia was expanded. There was no longer a pool of unskilled surplus labour in Japan. On the contrary, in contrast to the first wave of natural resource-seeking relocation of heavy industrial sectors in the 1970s, it was the tight labour market condition at home, and in particular the high rising real wages in Japan with the appreciating Yen in the 1980s, that compelled Japanese corporations to relocate manufacturing activities to Southeast Asia.

By the time Japan became a major bilateral donor in Africa in the early 1990s, the Japanese aid agencies had accumulated much experience and knowledge gained in Asia

²⁴ Kobayashi, 2008, pp. 21-22.

²⁵ Kobayashi, 2008, pp. 9-11.

²⁶ See Söderberg, M 'Japanese ODA – what type, for whom and why' in M. Söderberg (ed.), *The Business of Japanese Foreign Aid*, London and New York: Routledge, 1996 for a detailed discussion on Japanese aid.

²⁷ The only exception where policy conditionality is used is in the “One China” principle.

over the years working within the aid model described above. Hence, Japanese aid exhibited a strong focus on project aid in building economic infrastructure through a window of concessional loans provided by the OECF-JBIC, while JICA provided technical assistance and grant aid in areas such as community-based rural and agricultural development projects. However, this model of aid as such was not very pronounced in Japan's own aid programme in Africa. Several location-specific factors and a push among the DAC members towards establishing consensus around a unified foreign aid model prevented Japan from adhering to its own mechanisms of delivering aid as practised in Southeast Asia.

After the early 1980s, programme aid was increasingly favoured over project aid in most multilateral and bilateral aid agencies, as discussed in Section 4 below. At the height of the use of the Structural Adjustment Programmes as a preferred conduit for aid delivery in Africa, there was a dominant position that economic infrastructure could be provided through privatised utility firms or the public-private partnerships, where official foreign aid is seen as taking a minor role. Against this general trend, until the mid-1980s a significant proportion of Japan's aid to Africa was delivered in the form of standard project aid through the provision of concessional Yen credit, as was the case in Southeast Asia. However, in 1985 Japan launched the Special Joint Financing for Sub-Saharan Africa (1985-1987), which was an attempt to assist the Joint Program of Action for Sub-Saharan Africa of the World Bank. With this, there occurred a drastic shift in Japanese aid towards programme aid under the joint finance with the World Bank in the mid-1980s. Thus, the shift observed in Japan's ODA was a part of its endeavour to recycle large foreign reserves in efforts to lessen the criticism mounted against Japan for creating significant international imbalances. In this sense, it could be suggested that Japan's shift in its aid modality in Africa was in part driven by external pressure on Japan. Since then, a large part of Japanese aid has been utilized for financing programme aid designed and executed by the international financial institutions (IFIs) in Africa.²⁸

Moreover, since the early 1990s, consistency and coherence in official aid modalities has been pursued through the Aid Coordination and Harmonisation initiatives among the DAC member countries. Accordingly, the system of aid modalities has been distinctively moved away from request-based bilateral aid to a consultation-based one and, more recently, to general budget support. Tied aid – one distinct characteristic of earlier Japanese aid, through which official aid money was used to finance investment and business deals by Japanese private firms in the earlier package deals of aid-trade-investment tripartite arrangements – has increasingly been condemned as an unfair practice that works against recipients' interests, as it is estimated to raise the cost of development assistance by 25 % at least. As a member of the OECD-DAC, Japan is required to detach its aid from private business

²⁸ We are grateful to Professor Yasutame Shimomura for drawing our attention to several important factors and conditions that led to changes in Japan's aid delivery mechanisms in Africa in the 1980s and 1990s. It should be added that JICA has continued to be active in providing technical assistance in many aid-funded projects, often in rural areas.

interests, and it has become increasingly untied over time. Nowadays, aid-funded projects are as a rule required to include a process of international competitive bidding and tendering.

In addition to the changes made to the system of the “internationally acceptable code of practice” to which Japan has adhered to as a DAC member, there are a number of domestic factors which could explain why the Japanese “economic cooperation” model of foreign aid – as practised in Asia – has not been a pronounced feature of Japanese aid in Africa. As the Japanese economy entered into its own lost decade of the banking and financial crisis in the 1990s, the fiscal balance deteriorated, domestic support for overseas aid dwindled and the aid budget was repeatedly cut. The prolonged debt crisis in many HIPCs throughout the 1990s had also posed a serious question over the applicability and sustainability of loan-financed infrastructure projects in Africa. Under these circumstances, the Ministry of Finance of Japan has restricted large-sized Yen credits for Africa, listing poor governance, lack of repayment capacity, and international aid trends in Africa as reasons. Consequently, while Japanese scholars and practitioners have continued to promote the East Asian development model as an alternative to the “Washington Consensus”, through aid to countries in Southeast Asia such as Vietnam,²⁹ Japan’s aid to Africa has not sustained its commitments to aid-funded projects on a sufficiently large scale to have any marked developmental impact in the region.

More critically, Japanese private firms have never been able to “lock in” African economic development. The big wave of relocation of production sites of Japanese large corporations and small-to-medium-scale firms into Southeast Asia observed after the Plaza accord in 1985 was not repeated in Africa, even though Japan has steadily increased its aid allocation to the continent since the early 1990s and Africa became a main destination of Japanese official aid in 2006. For Japanese private corporations and firms, which are extremely risk-averse – much more so than their Chinese or Korean counterparts – Africa has been and remains an unknown, distant continent for conducting business. Without official guarantees and support through aid, this unfamiliarity has made them reluctant to incur huge sunk costs and take calculated business risks through large-scale investment in the manufacturing and service sectors – the traditional fields of Japanese private operations. With ever-expanding production networks in the Asia-Pacific region with China’s entry into the picture, there was also no pressing need to relocate production sites of Japanese firms to Africa. Asia and the rest of world continued providing markets and investment destinations for them. Moreover, historically, while the Chinese have experienced many waves of cross-continental migration, including to Africa, Japanese workers have not had so much experience in international migration. Generally, on the migration front, Japan has been, and remains, a closed society.

²⁹ See Ohno, K. and I. Ohno, *Japanese Views on Economic Development: Diverse Paths to the Market*, Routledge, 1998 and Shimomura, Y., ‘Rediscovering the Role for Japan: ‘Counterforce’ against the ‘Negative Side’ of the Trends in International Aid’, in Takamasa Akiyama and Yuichi Sasaoka eds., *In Search of New Approaches to Japanese Development Assistance*, Foundation for Advanced Studies on International Development, FASID, 2006.

Further, Japan's thirst for natural resources has been reduced over time. The Japanese economy passed its high-growth era some decades ago and experienced stagnation and recession more recently. The structure of the Japanese economy has also moved away decisively from energy- and resource-intensive sectors to high-technology and knowledge-intensive sectors. Given the demographic changes and the shift to activities that meet growing environmental concerns, Japan does not have a drive for natural resources and energy that is as fierce and intensive as that of contemporary China. Africa is therefore not a natural business partner for Japanese private firms.

Thus, Japan has not engaged in African economies by expanding trade and investment relationships. The relationships have not moved much beyond providing official assistance through standard aid modalities such as grants, concessional loans or technical assistance. For Japan, as with many other European and American companies, African countries have been neither a significant trading partner nor an important destination of Japanese direct investment. Though the Japanese government has also periodically convened a high-level official forum for African Development (the Tokyo International Conference for African Development, TICAD) since the early 1990s, it has often been cynically seen as a forum created more for meeting Japan's foreign policy objectives than for consolidating business relationships between Japan and African countries.³⁰ Probably, reflecting on this weak link in the Japan-Africa economic relations, the commitments made at the most recent conference in 2008, TICD IV, include the use of ODA to encourage Japanese-sector investment in Africa with the goal of doubling Japanese private sector investment.³¹

30 However, it is important to note the critical difference between the TICAD process and FOCAC. The Japanese government always promotes TICAD not as a unilateral initiative with Africa but as a partnership programme with other UN agencies and the World Bank as well as the Global Coalition for Africa. In reality, the Japanese government initially established the TICAD process to make the Japanese economic development model, which is distinctly different from the typical Western model, known to wider audiences in Africa.

31 At TICAD IV in 2008, the Japanese government pledged: to double its ODA to Africa up to US\$3.4 billion by the end of 2012; to make US\$4 billion available in loans for the development of infrastructure and agriculture; to establish a US\$10 billion global financial mechanism to address the effects of climate change; and to provide emergency food aid in 2008.

THE ECONOMIC DEVELOPMENT POLICY DEBATE AND THE AID RELATIONSHIPS EVOLVED WITH TRADITIONAL DONORS IN AFRICA

In the early decades after gaining political independence, many politicians in Sub-Saharan Africa (SSA) are known to have used more extensively divisive fiscal instruments such as subsidies or preferential credits than politicians in other regions as the favoured mechanisms to buy political support or to appease various interest groups.³² Furthermore, often having a narrow political support base in urban areas, governments had a tendency to ignore their agricultural sectors and often failed to undertake pro-poor public investment in rural areas. This is in a sharp contrast to the earlier experiences in East Asia. As Ozawa³³ suggests, in most of East Asia governments made concerted efforts to increase pro-poor public expenditure by facilitating the building of primary assets for the poor through such measures as an equitable distribution of land (through appropriate land reforms); extensive public provision of free and universal primary education; the promotion of small-scale enterprises; and the development of rural infrastructure – roads, schools, agricultural support outposts, health stations, and irrigation systems.

Thus, there were already some critical differences between the two regions in the way in which governments and private agents interacted in the early post-independence years. However, it should be noted that the capacity of many governments in SSA to build and consolidate a strong nation-state had steadily declined since the beginning of the debt crisis in the early 1980s. During the protracted debt crisis that lasted through to the mid-2000s, it is no exaggeration to suggest that the path of economic development has been greatly shaped by economic policies dictated by the donor community led by the international financial institutions. In this regard, the debt crisis that broke out in the early 1980s constitutes a watershed in Africa's economic management. Furthermore, as argued in Nissanke,³⁴ it is not

³² This line of characterization of African states is found in Bates (Bates, R. H., *Markets and States in Tropical Africa: The Political Basis of Agricultural Policies*. Berkeley, Los Angeles and London: University of California Press, 1981 and Bates, R. H., *Essays on the Political Economy of Rural Africa*, Cambridge: Cambridge University Press; and Berkeley, Los Angeles and London: University of California Press, 1983). See also Teranishi, J., 'Sectoral resource transfer, conflict and macro-stability in economic development: A comparative analysis' in M. Aoki and M. Okuno-Fujiwara (eds), *Role of Government in East Asia: A Comparative Institutional Analysis*. Oxford: Oxford University Press, 1996.

³³ Ozawa, T., 'Asia's Labour-Driven Economic Development, Flying-Geese Style', in Nissanke M. and E. Thorbecke (eds), *The Poor under Globalization in Asia, Africa and Latin America*, Oxford University Press, April 2010.

³⁴ 2010 etc.

a mere historical accident that the beginning of the debt crisis of low-income economies in SSA coincided exactly with that of the conveniently forgotten “commodity crisis” that unfolded in the 1980s.³⁵ All debt relief mechanisms employed since the outbreak of the debt crisis, including the HIPC initiatives, failed to pay sufficient attention to the plight of many commodity-dependent developing countries in Africa, which experienced the sharp drop in real commodity prices and the subsequent steady decline in their terms of trade. Thus, primary commodity-dependent economies in Africa suffered from external shocks in the form of the huge loss of their debt-servicing capacity and their purchasing power in international economic transactions, as well as the dwindling of the fiscal capacity to implement development-oriented policies domestically. On the macroeconomic stabilization front, the demand management of commodity-dependent economies governed by external shocks should be counter-cyclical to the commodity price movements. Yet, throughout the 1980s and 1990s, these countries were typically forced to adopt the IMF-sponsored pro-cyclical stabilization programme that aims at a further contraction in aggregate domestic demand at times of an externally induced balance of payment crisis accompanied by a sharp drop in domestic demand.³⁶

Official multilateral and bilateral creditors have kept applying ex-post debt relief mechanisms with policy conditionality attached, instead of making contingent or compensatory financing facilities available to these countries, in response to recurrent liquidity crises and the ensuing “debt overhang” conditions against the background of depressed commodity prices in the 1980s and 1990s. Africa had to wait for an eventual cancellation of most of the official debt, embedded in the MDRI in 2005, to shake off the overhang of the prolonged debt crisis of these countries. All these factors are indeed a reflection of the failure on the part of the international development community, in particular the IFIs, to acknowledge the commodity-related issues and deal with them effectively and in a timely fashion at the global level. This has entailed a huge cost to these low-income countries, mostly in Sub-Saharan Africa, in forgone development opportunities.

Yet the economic policies recommended in the semblance of both the Washington and the Post-Washington consensuses have not succeeded in facilitating the process of structural transformation and diversification of their commodity-dependent economies through rigorous productive and social investment. The recent higher growth rates recorded by many natural resource-rich economies in SSA for 2002-2008 were achieved only when

³⁵ Maizels, A., *Commodities in Crisis*, Oxford, Clarendon Press, 1992.

³⁶ See Nissanke, M., ‘Stabilization-cum-Adjustment over the Commodity Price Cycle’ in *Economic Crisis in Developing Countries – New Perspectives on Commodities, Trade and Finance*, edited by Nissanke, M. and Hewitt, A., Pinter Publishers, London, 1993, pp. 56-78 and Nissanke, M., ‘Commodity Market Structures, Evolving Governance and Policy Issues’, Chapter 4 in Nissanke, M. and Mavrotas, G. (eds.), *Commodities, Governance and Economic Development under Globalization*, Palgrave/Macmillan Press, February 2010 for a critical review of macroeconomic adjustment policies over the commodity price cycles in minerals-based developing countries.

commodity prices experienced a sustained boom against the background of the growing demand for natural resources from the Asian drivers, i.e. China and India.³⁷

Today, several decades after political independence, high primary commodity dependence remains one of the most conspicuous characteristics of the economic linkage of countries in SSA with the rest of the world under globalization. According to UNCTAD,³⁸ in Africa, 34 countries are dependent on three or fewer primary commodities, and 23 countries are dependent on a single commodity for more than 50% of total export earnings. Most of the African countries that are classified as least developed countries (LDCs) and HIPCs have a higher dependency ratio of 80% for their export earnings. As UNCTAD³⁹ suggests, many low-income countries that are dependent on primary commodity exports and natural resource-based structures could be locked into an international poverty trap through integration into the global economy.

The majority of countries in Africa remain overly aid-dependent, while many developing countries in other regions, in particular in Asia, have managed to graduate from foreign aid. This sparked off the "aid effectiveness" debate in the late 1990s. Though the debate led by the IFIs was largely centered on how to make policy conditionality more binding on aid-recipient countries, it should not be forgotten that the effectiveness of aid rests critically on the nature of the recipient-donor relationships among other conditions.⁴⁰ The donor-recipient relationships had been severely impaired by the two-decade long experiences with the policy conditionality attached to Structural Adjustment Programmes (SAPs), whereby a series of restrictive policy conditionalities were imposed as a universally applicable basis for reforms in return for debt relief and foreign aid. Though reforms were undoubtedly due in many aspects, the process by which the policy changes were imposed upon heavily indebted low-income countries did undermine the legitimacy of the reform agenda in the domestic political economy context. This was particularly so as these reform packages often generated a sharp configuration of winners and losers in African countries noted for their fragility and instability.

The "new aid architecture" that emerged in the 2000s from the aid effectiveness debate in the late 1990s was supposed to address concerns raised in the critical evaluation of the ex ante policy conditionality embedded in the SAPs.⁴¹ Yet, despite the claim that greater ownership and partnership have been achieved under the new aid architecture, the donor-

³⁷ See Goldstein, A., N. Pinaud, H. Reisen and X. Chen, *The Rise of China and India: What's in it for Africa?*, OECD Development Centre, Paris, 2006. Kaplinsky, R. and Messner, D., 'The Impact of Asian Drivers on the Developing Countries', *World Development*, 36 (2), 2008: 197-209 and Kaplinsky, R., 'Asian Drivers, Commodity Prices and the Terms of Trade', Chapter 6 in Nissanke, M. and Mavrotas, G. (eds), *Commodities, Governance and Economic Development under Globalization*, Palgrave/Macmillan, 2010 among others.

³⁸ 2007, 2008

³⁹ 2002

⁴⁰ Nissanke, M., 'Reconstructing the Aid Effectiveness Debate', in Mavrotas, G. (ed.), *Foreign Aid for Development: Issues, Challenges, and the New Agenda*, Oxford University Press, March 2010.

⁴¹ Nissanke, M., 'Reconstructing the Aid Effectiveness Debate', in Mavrotas, G. (ed.), *Foreign Aid for Development: Issues, Challenges, and the New Agenda*, Oxford University Press, March 2010.

recipient relationships in SSA are still often built on a shaky foundation, where recipient governments and donors tend to position themselves in an “aid power” game, which could result in an inferior non-cooperative equilibrium. The performance-based aid allocation rule, evaluated in the Country Policy and Institutional Assessment (CPIA) rating, and the debt-sustainability framework embedded in the IDA allocation procedure adopted as a part of the “ex post” policy conditionality, have not changed fundamentally the donor-recipient relationships that were shaped in the 1980s and 1990s. Donors still feel compelled to monitor and police whether recipient governments adopt, and adhere to, economic policies and institutional governance structures recommended by donors.

As discussed above, with the advent of the debt crisis in the 1980s, fiscal retrenchment has been consistently pursued as part of the stabilization-cum-adjustment policies. Governments have generally been left with little capacity and resources to undertake public investment on a sustained basis. Typically, it is large-scale infrastructure projects that are axed first in fiscal expenditure allocations in time of crisis. At the height of the debt crisis, the fiscal retrenchment was so deep that essential public goods provision in social infrastructure such as basic education and health expenditure was also axed and it was assumed that these services could be provided on a fee-paying basis, reflecting an effect of the general ideological shift within the international donor community at the time. In many countries, the scope and quality of publicly-provided social services and infrastructure provision have progressively deteriorated.

In parallel, the donor community had steadily reduced aid to economic infrastructure projects relative to overall aid as well as to social infrastructures in SSA in the 1980s and 1990s.⁴² This is again in a sharp contrast to the experiences in developing countries in East Asia, where Japan – a major bilateral donor – concentrated its aid on economic infrastructure development. Three reasons can be given for this sharp reduction in aid allocation to economic infrastructure in Africa. The first is the perceived failure of many donor- and government-funded infrastructure projects in the past, often dubbed “white elephants”. Some of these projects were manifestly “wrong” from their inception, as they were motivated almost exclusively by political considerations rather than carefully justified in economic terms. The others failed because of inadequate provision for recurrent and maintenance costs, unrealistic pricing, the prevalence of regulatory forbearance or gross mismanagement. The second reason is the relentless drive for public divestiture, privatization and deregulation across infrastructure sectors, including water, telecommunications, transport and power. The third reason is the powerful advocacy for shifting public spending towards social sectors such as health and education, partly as result of the deliberations of the Copenhagen Social Summit in 1995.⁴³

⁴² See Nissanke, M., ‘Aid Effectiveness to Infrastructure: A Comparative Study of East Asia and Sub-Saharan Africa’, Framework Paper, May, Japan Bank for International Co-operation: Tokyo, 2007 for a detailed discussion.

⁴³ See Ndulu, B., ‘Infrastructure, Regional Integration and Growth in Sub-Saharan Africa: Dealing with the disadvantages of Geography and Sovereign Fragmentation’, *Journal of African Economies*, 2006, 15 (2): 212–244 for this discussion.

Only recently, after the newly emerging literature on Africa's "growth tragedy" identified the region's geographical disadvantages as one of the most binding constraints on growth, has the need for massive investment in economic infrastructure been officially recognized as critical for accelerating economic and productivity growth as well as for poverty reduction. This unfortunate delay in reinstating the critical importance of infrastructure investment for African development largely reflects the unhealthy situation that has evolved since the early 1980s, wherein the priority of the development agenda for Africa is predominantly set by the donor community, in particular by the IFIs.⁴⁴

The belated official recognition of Africa's disadvantages in infrastructure development has entailed a heavy cost in terms of forgone economic growth and poverty reduction. This is because both economic and social infrastructures are known to be "public goods", where public financing through governments and external agencies is supposed to have an important role in their provision, at least at the early stage of economic development. In the absence of adequate provision of essential public goods, the majority in rural areas have de facto been disenfranchised from the process of development. Private agents and rural farmers have often refrained from making forward-looking productive investments.⁴⁵ Thus, the political and economic environments in SSA that evolved as a result have kept the economic activities of a significant proportion of private agents away from the "official" economy. The so-called informal economy has become an important, but very fragile, source of employment and income for many. These conditions have often led to a fragile state with a seriously depleted and impaired institutional capability to deliver social services and to build economic and social infrastructure.

Today, after such costly neglect, the vital role of economic infrastructure for development is widely acknowledged, as is evident in the Commission for Africa Report (2005). Given the enormous infrastructure deficits, in its call for an immediate doubling of ODA to Africa to US\$50 billion a year, the Commission for Africa reckoned that about a half of ODA needed to be spent on infrastructure building.

It is at this particular historical juncture that China has returned to Africa, offering a new kind of development partnership, without any policy conditionality attached, on the basis of a "coalition" engagement, i.e. a collaborative state-business approach through aid-trade-investment as a package. So far, the focus of China's aid has been exactly on economic infrastructure building, which is now universally seen as critical for Africa's future.

⁴⁴ The diagnosis offered by the donor community for development failures in Africa has in fact evolved from the "capital shortage" in the 1960s and 1970s, to the "policy failures" in the 1980s, and finally to the "institutional failures" in the 1990s (Adam, C. and S. O'Connell, 'Aid, taxation and development: Analytical perspectives on aid effectiveness in sub-Saharan Africa'. Centre for the Study of African Economies, University of Oxford, 1997. Only in the 2000s did the "infrastructure" failure in Africa eventually receive due attention.

⁴⁵ See Nissanke M. and Aryeetey, E., *Comparative Development Experiences of Sub-Saharan Africa and East Asia: An Institutional Approach*, Chapters 1&2, Ashgate, UK, 2003 for a detailed discussion on the relationships between private agents and governments in SSA in a comparative perspective with those found in East Asia.

CHINA'S ENGAGEMENT AND ITS IMPACT ON AFRICAN DEVELOPMENT

SCALE, MODALITY AND ISSUES ARISING

Detailed statistics and information on Chinese aid and cooperation in Africa are hard to obtain. Indeed, the paucity of information and the unfamiliarity or non-transparency of the Chinese engagement have led to some misunderstanding, confusion, and occasionally unfounded accusations against Chinese aid in Africa. Offered as a package together with trade and investment, aid cannot be disentangled from other economic deals and relations, and Chinese aid is therefore difficult to analyse on a par with bilateral aid from other donor countries according to the definition given by the OECD-DAC.

Though details of different components in the cooperation package are difficult to ascertain, there is no doubt that China's economic activities in Africa in aggregate have been expanding at an accelerated rate since 2001. For example, China's pledge to double aid within three years (2007-2009), made at the summit meeting of FOCAC in Beijing in 2006, is reported to have been fulfilled, despite the global financial and economic crisis in the intervening period. China has also agreed debt relief or cancellation with 31 African countries. While China had pledged to increase its trade with Africa to about US\$100 billion by 2010, in fact by 2008 the figure had reached \$106 billion, recording a year-on-year increase of 45 %. Chinese imports from Africa in 2008 amounted to US\$56 billion, up by 54 % over the previous year. Over the period 2001-2008, bilateral trade is reported to have increased tenfold, while total Chinese investment in Africa is estimated to have reached US\$26 billion by the end of 2008, according to a Chinese source.

At the latest FOCAC meeting in November 2009, in addition to the new pledge to double its concessional loans to Africa to US\$10 billion in the next three years, China emphasized extending the areas for cooperation beyond natural resources and infrastructure to agriculture development by sending 50 groups of agricultural experts and training 2,000 specialists in agriculture through transfer of technology and knowledge. It is setting aside US\$1 billion for loans to small to medium-scale enterprises in Africa.

In terms of areas of cooperation, Chinese aid initially focused heavily on infrastructure projects. Chinese infrastructure projects alone were estimated to have climbed to US\$7 billion in 2006, compared with US\$5 billion given to infrastructure projects by all the DAC countries combined.⁴⁶ Hence, China's contribution to infrastructure development in Africa

⁴⁶ Foster V., W. Butterfield, C. Chen and N. Pushak, *Building Bridges: China's Growing Role as Infrastructure Financier for Africa*, World Bank, 2008.

is very significant and visible indeed. In terms of distribution by country, resource-rich countries such as Nigeria, Angola, Sudan and Guinea have so far accounted for over 70% of China's infrastructure finance, though resource-poor countries such as Ethiopia are also listed among countries which have received more than 10% of Chinese aid for infrastructure development. In sectoral distribution, power generation, especially hydropower projects, and transport projects (mostly involving the rehabilitation and construction of railways) dominate in Chinese infrastructural projects in Africa as a whole.⁴⁷

Typically, Chinese aid for infrastructure projects is given in the form of preferential loans from the China EX-IM Bank with the use of Chinese contractors under the "resources for infrastructure" format, known as the "Angola mode".⁴⁸ It is important to note that as a package deal, aid flows for infrastructure development under the "Angola mode" are closely intertwined with direct investment in resource extraction and associated trade deals. As soon as official loan agreements are concluded at the government levels, it is Chinese firms (usually state-owned companies), after winning contracts either in infrastructure projects or in resource extraction, who get direct access to funds on preferential terms from the EX-IM Bank with sovereign official credit guarantees. Hence, the financial risks are in practice completely underwritten for Chinese companies. They would naturally find these business deals very attractive given their promise of much higher returns in Africa compared with operations domestically or elsewhere.⁴⁹ The Chinese government claims that this formula can produce "win-win" outcomes for both parties. On the one hand, China can secure a stable supply of resources through long-term trade contracts, probably mitigating to some extent the high price volatilities that are characteristic of most primary commodities in world markets. On the other hand, this modality potentially allows African countries to relieve critical infrastructure bottlenecks for development in exchange for Africa's abundant natural resources.

Unfortunately, the details of the actual negotiated terms of the contracts, and in particular the shadow relative prices used in the calculations for long-term barter arrangements implicit in "resources for infrastructure" contracts, are not disclosed. Hence it is difficult to ascertain the actual distributional outcome from these deals between the contracting parties, including the benefits accruing to Chinese companies and stakeholders in Africa. According to the World Bank study, the contract terms appear to be subject to periodic revisions, so the contracting parties are not necessarily locked rigidly in to the prices initially negotiated.⁵⁰

The same study also reports that Chinese preferential loans charge on average an interest rate of 3.6 %, with a grace period of 4 years and a maturity of 14 years. If these are the terms

⁴⁷ The power sector and the transport sector in Africa received over US\$5.3 billion each between 2001 and 2007 (Foster et al, 2008).

⁴⁸ This format was used in the contract concluded between China and Angola, through which China gave a US\$2 billion line of credit for the reconstruction of Angola's basic infrastructure destroyed by the decades of civil war.

⁴⁹ The "resources for infrastructure" modality itself is widely used by Western donors in oil exploration in Africa, as well as by Japan in Southeast Asia, so it is not unique for Chinese operations. However, the Chinese preference for the use of this modality is evident as it is used for many export commodities such as other minerals and agricultural products. For example, a part of the Bui Dam hydropower project in Ghana would be paid for by cocoa exports to China (Foster et al, 2008).

⁵⁰ Foster et al, 2008.

used in Chinese loan contracts, this amounts to a grant element of less than 25 % (which is the minimum required for an agreement to be classified as official aid according to the OECD-DAC definition of aid.⁵¹ However, this cannot be easily verified, as the terms of each contract are usually left opaque and not disclosed. It is also known that the degree of concessional elements is not uniform, with some variations observed depending on projects.

Given the suspected lower grant elements of Chinese loans, concerns have been expressed by other donors, suggesting that China's "imprudent lending" to African governments, in particular to those with little commitment to "good governance", could involve the danger of future debt crises with debt sustainability seriously deteriorating in the near future.⁵² However, as noted above, such alarms and fear may prove unfounded. Indeed, without much of the fuss that is typical of past Paris Club negotiations with other donors, the Chinese have been generously granting debt relief or cancellation to many African governments over recent years. Rather, African countries, usually treated as high-risk countries by Western investors and donors, are happy to be able to use their rich natural resources as collateral in accessing preferential loans from China's EX-IM Bank. Commercial loans would have been more expensive and would not come with a grace period. Chinese loans are also known to be disbursed much faster than traditional loans from the West, and – critically from a perspective of African governments – without any "policy conditionality" attached.

Furthermore, within the formal framework adopted, Chinese arrangements appear to be, at first sight at least, much more flexible than the mechanisms offered by traditional donors, since the procedure adopted is seen to promote the sense of local ownership of aid-funded projects. Project selection is request-based: projects are initiated by borrowing countries, dependent on their preference, priority and circumstances. It is in principle the borrowing countries which submit loan requests to China's EX-IM Bank.⁵³ And it is claimed that China establishes its priorities in project selection depending on countries' needs and requests. However, the real ownership – beyond the formal procedures laid out – can only be assessed by detailed studies on how contracts are conceived, negotiated and implemented throughout the project cycles.

According to the Chatham House study, which presents a comparative analysis of the "oil for infrastructure" deals in Angola and Nigeria, the actual impact and outcome depend critically on the political economy context of African host governments, in which deals are initiated, tendered, negotiated and executed.⁵⁴ In Nigeria, no single deal materialized out of a number of protracted "oil-for-infrastructure" agreements under negotiation as they were used by a cash-hungry political class amid the political drama that unfolded around the presidential election of 2007. The opacity of the deals negotiated allowed politicians to cash in without bringing any development dividend to the Nigerian economy.

⁵¹ Foster et al, 2008.

⁵² For a critical discussion of such an assertion, see Reisen 2007 and Reisen and Ndoye, 2008.

⁵³ See Kobayashi, T. 'Evolution of China's Aid Policy', JBIC Institute, Working Paper, No. 27, 2008 for a detailed discussion of how procedures and institutional arrangements are applied in practice under the "Angola mode".

⁵⁴ Vines, A., L. Wong, M. Weimer and I. Campos, 'Thirst for African Oil: Asian National Oil Companies in Nigeria and Angola', Chatham House, London, 2009.

In contrast, the Angolan government is trying to be in the driving seat throughout in order to nurture the relationship with care through the interlinking business and diplomacy and in a disciplined way to position itself to secure a substantial development dividend – post-conflict reconstruction – out of the oil deals with China.

Another related contentious element in Chinese aid modality is the prevalence of tied aid. It is reported that Chinese aid contracts contain an agreement that up to 70 % of construction and civil engineering contracts should be awarded to Chinese companies.⁵⁵ Further, Chinese aid agreements usually stipulate that at least 50 % of equipments, materials and technology needed for Chinese-funded projects should be sourced from China. These requirements may act as an impediment for Chinese aid-funded projects to generate wider spill over effects on local economies, create job opportunities locally and allow wider knowledge and skills transfer.

In particular, serious and legitimate concerns have been raised about the practice of bringing Chinese workers to perform simple tasks that do not require much skill and to work on aid-funded projects, rather than employing local workers and providing on-site job training. While this practice deprives local workers of opportunities to participate, interact and learn, it allows Chinese companies to use aid-funded projects as a launching pad for entering African markets and later bid for more commercial projects, once they have accumulated enough experience. As a result, there is a danger that local workers and firms will be sidelined and lose out in the process. Thus, a critical question can be raised as to whether the “mutual benefit” promised in the cooperation agreements may in reality be skewed in favour of Chinese firms and contractors rather than local firms who could have benefited from joint ventures, subcontracting arrangements, the use of local materials and resources, or other backward and forward linkages.

Indeed, as Jerve and Nissanke⁵⁶ argue, project aid can be most effective for development if skills and knowledge transfer as well as institutional learning processes are actively encouraged through intensive interactions with local firms, communities and stakeholders. Such potential positive spillovers from aid activities cannot be expected to any great degree from the prevailing aid modality in the “Angola mode” as it has been practised so far. More active collaboration or interface between Chinese and locals on equal terms would have created a much healthier environment for deepening economic cooperation on the ground. Various mechanisms such as convening collaborative workshops, job-training sessions or joint ventures-partnerships could have been encouraged.

In fact, pressures for changes in some aspects of the current practice appear to be mounting, as several case studies have begun to document. Vines et al.⁵⁷ report that more than 40 000 Chinese were brought in to work directly on the “oil-for-infrastructure” project

⁵⁵ Foster et al, 2008.

⁵⁶ 2008

⁵⁷ 2009

in Angola after 2004. Inevitably, this created considerable disquiet on the ground. Though some attempts were made, at the request of the Angolan government, to take on more local labour, this issue remained unresolved and eventually resulted in some stoppages of Chinese construction projects in 2007-2008. Given this experience as well as corruption charges associated with the opaque financial deals of a Hong-Kong based private corporation that was involved, the Angolan government is reported now to be keen to shift away from the “Angola mode” approach.

Other case studies also suggest that the governance structure that characterizes Chinese state-owned enterprises (SOEs) drives them to put their short-term business interests first, which would not be easily reconcilable with the long-term development aspirations and interests of African stakeholders. For example, Haglund⁵⁸ observes in his case study of a Chinese SOE operating in Zambia’s mining sector that the Chinese firm tended to pursue a short-term corporate strategy by applying excessive cost-cutting and segregated management practices.⁵⁹ Because it was pressured to operate in a financially self-reliant way once an operation got off the ground, the firm tended to neglect local environmental and social concerns.

The accident in the Chinese-run mines that claimed the lives of over 50 Zambian workers in 2005 sparked a highly charged anti-Chinese political movement in the country in the years that followed. Yet the Chinese firm involved continues to strive to keep down the costs that would be required if the mines are to be developed and maintained on an environmentally and socially sustainable basis. It is also known to have paid the lowest salaries among the now privatised, foreign-owned mining companies and provided little in the way of social services or training programmes to workers, which was a norm at the pre-privatised mining concerns or other foreign-owned companies in Zambia. Though there have been some attempts to address these concerns over recent years, the Chinese firm involved has not established a reputation for a firm commitment to promote the long-term development of human capital locally. Nor has it encouraged any meaningful interaction between Chinese and Zambians at the management levels.

Such practice is reported to be not confined to this particular mining firm but widely observed across Chinese SOEs operating in other locations, either as long-term investors in resource extraction or manufacturing, or as contractors in the construction and infrastructure sectors. Haglund⁶⁰ suggests that many problems stem from the fact that Chinese expatriates and workers might regard a stint in Africa as a purely financial opportunity and do not see the value of establishing open relationships with local communities and

⁵⁸ Haglund, D., ‘In It for the Long-Term? Governance and Learning among Chinese Investors in Zambia’s Copper Sector’, *The China Quarterly*, September 2009, pp. 627-646.

⁵⁹ The SOE examined in this case study operates in one of the five Economic Processing Zones (EPZs). China established these EPZs in Egypt, Mauritius, Nigeria, Tanzania and Zambia to encourage the processing of raw materials and manufacturing activities locally.

⁶⁰ 2009

stakeholders.⁶¹ Instead they tend to rely on the host-country government as a broker for conflict resolution with local communities and workers. However, this practice may not suit the reality of the political economy in many Africa countries, where the state itself may not have a good track record of representing and protecting the interests of local people. As Alden and Hughes⁶² document in detail, African elites themselves are often alienated domestically, and tend to be viewed with suspicion for their corruption-prone political deals. Bräutigam⁶³ also notes that Chinese firms have generally had a tendency to rely only on the existence of longer-term Chinese diaspora communities for local business contacts.

RECENT DEVELOPMENT AND EVOLUTION

Notwithstanding these problems encountered on the ground, China has been expanding the areas of economic cooperation rapidly. And with this, the modality of Chinese operations has been evolving too. First, China has been rapidly extending its infrastructure finance beyond the natural resource sector to other sectors such as telecommunications and water sanitation projects as well as to soft infrastructure projects by building hospitals and schools. A number of new financial institutions and facilities have also been created, including the Chinese Development Bank. While over 90 % of China's infrastructure projects are still financed by preferential loans from the EX-IM Bank, some infrastructure projects such as road projects in Ethiopia and Botswana are now funded by the Ministry of Commerce, which has begun providing investment and trade credit financing.⁶⁴

In this context, it can be noted that the need for tied aid may be gradually receding even from a Chinese perspective. Chinese construction firms have become very competitive in Africa as well as globally, after the initial period of "learning by doing". Recently they have started winning projects under competitive international tender processes. Chinese firms are noted for being highly competitive in terms of bidding prices. It is reported that on average they could bid for projects at a quarter or one-fifth of prices quoted by competitors. In addition to the cost advantage, they could also supply equipment and materials that are more suited to conditions prevailing in Africa.⁶⁵

Second, while large SOEs have dominated in large infrastructure projects and resource extraction sectors, it is Chinese private companies which have become very

⁶¹ The same could be suggested in relation to European and American expatriates and workers.

⁶² 2009

⁶³ 2009

⁶⁴ See Wang, Jian-Ye, 'What Drives China's Growing Role in Africa?', IMF Working Paper, WP/07/211, 2007 for a further discussion on financial facilities.

⁶⁵ The China-Africa-Fund was set up in 2006 with an initial pot of US\$5 billion. The Fund was given a promise of further expansion at the FOCAC meeting in 2009. Alden and Hughes (Alden, C. and Hughes, C. R., 'Harmony and Discord in China's Africa Strategy: Some Implications for Foreign Policy', *The China Quarterly*, September 2009, pp. 563-584) suggest that much more than three-quarters of a million Chinese have migrated to Africa in recent years following the lure of African riches.

active across economic sectors. With official financial support initially available through the China-Africa Fund, an ever-increasing number of Chinese small-size, privately-run firms have been fast establishing their business in manufacturing and service sectors across the continent, especially in countries such as South Africa and Nigeria.

Given this, the PRC is no longer in a position to monitor the operations and activities of numerous heterogeneous actors. In fact, many private firms now operate mostly outside the closed circle of the PRC government.⁶⁶ At the same time, private firms initially assisted by concessional loans have been told recently to wean themselves financially off state help. Private commercial banks, such as the China Merchant Bank and the Industrial and Commercial Bank of China, which acquired a 20 % stake in South Africa's Standard Bank in 2007, have started playing a pivotal role in providing commercial loans to finance a growing number of activities by Chinese private entrepreneurs operating in Africa. China's state credit insurance agency – Sinosure – has become active in providing some cover for country and credit risks involved in their ventures.

Third, China has shown keen interest in expanding trade relationships with Africa across many commodities. It removed tariffs from 440 goods exported by least developed countries, which are mostly located in Sub-Saharan Africa. Indeed, China's increased imports from Africa consist not only of mineral resources such as oil and metals but also of agricultural products. As China's per capita income has increased, it has become a significant net importer of many agricultural products, including grains, soya beans and vegetable oils as well as raw materials such as cotton and rubber. China became a net food importer in 2003. Its increased demand for agricultural products is also behind the steep rise in the prices of foods and other agricultural materials on world markets in 2007-2008. For example, according to Goldstein et al.,⁶⁷ all the increase in cotton demand for the period is accounted for by the increase in demand from China. Though Africa suffers from food deficits itself, China is a growing market for Africa's export crops such as cotton, coffee and cocoa.

On the whole, the Chinese-African economic relationships are very complex, spanning numerous activities and actors. They have also been evolving constantly, with China showing its willingness to learn from past mistakes and adjust to fresh challenges encountered in its offensive in Africa as a critical part of the Going Out strategy. Indeed, a greater degree of flexibility and diversity has been very much evident in Chinese approaches and modality. Yet, as Alden and Hughes⁶⁸ note, China's African strategy is both adaptive and instrumentalist, giving rise to some inevitable tensions in the China-African relationships. On the one hand,

⁶⁶ The recent opaque mining deals involving US\$7 billion in Guinea, which attracted worldwide condemnation, was negotiated by the Hong Kong-based China International Fund, which operates outside the control of the Chinese government (Reported in *Mail & Guardian*, November 4th, 2009 at <http://www.mg.co.za/article/2009-11-04-china-tries-to-wean-africa-investors-off-state-loans>). Indeed, the same company was at the centre of the corruption scandal in Angola's oil-for-infrastructure deal (Vines, A., L. Wong, M. Weimer and I. Campos, 'Thirst for African Oil: Asian National Oil Companies in Nigeria and Angola', Chatham House, London, 2009).

⁶⁷ 2007

⁶⁸ 2009

the eagerness of the Chinese government to address some of the drawbacks and criticisms in its aid operations demonstrates the importance that it attaches to building the China-African relationships on the concept of South-South cooperation. Beyond the “Resource for Infrastructure” modality, China has been rapidly expanding its aid to the agricultural sector – another main bottleneck Africa faces in achieving any significant poverty reduction among the rural poor. The Chinese government has been targeting its aid at increasing agricultural productivity in Africa by sending a large number of specialists/experts and setting up extension centres for sharing and transferring technology.⁶⁹ African farmers are reported to prefer farming machinery from China to that from other, Western suppliers, as it offers technology that is simple and easy to operate.

On the other hand, domestic considerations and imperatives sometimes appear to overwhelm the direction of China’s engagement with Africa. For example, while the Chinese government has fostered the principle of integrating aid and Chinese enterprises in its agricultural cooperation strategy for some time, more recently there has been a big push for Chinese farmers to focus on opening up new lands for development and setting up plantations in Africa, as is evident in China’s Africa policy white paper released in January 2007.⁷⁰ It has been suggested that what lay behind this initiative was China’s own need to relocate Chinese farmers displaced through the dual pressures of WTO trade liberalization and China’s rapid urbanization, as well as eyeing Africa as a source of future supply for China’s own food security. This move has inevitably produced an outcry and a backlash against large-scale Chinese investment in agriculture. Such initiatives, dubbed a “land grab”, are naturally seen as a threat to traditional farming by African smallholders.

Undoubtedly, China’s engagement with Africa has become truly diversified, involving numerous heterogeneous private operators, evolving from the “state-centric” form of co-operation to private business-centred operations, backed by the blessing of the state.⁷¹ They arrive in Africa for investment and business opportunities. This is a real sea-change that Africa has longed for, as “Africa needs real investment, not hand-out” from the rest of the world.⁷² However such a sudden surge of activities by the Chinese has inevitably created tensions and backlashes on the ground. In particular, insensitivities displayed by some Chinese actors in the process towards African society at large, in particular the interests and needs of African stakeholders, have proved counterproductive and damaging to the spirit of the true “South-South Cooperation” that the Chinese government is eager to promote.

⁶⁹ Bräutigam, D. A. and T. Xiayang, ‘China’s Engagement in African Agriculture ‘Down to the Countryside’, *The China Quarterly*, September 2009, pp. 563-584 show that China’s engagement in African agriculture has a long history, dating back to the 1950s and 1960s, and the Chinese government continued its aid-funded agricultural projects throughout the 1970s and 1980s when the size of China’s overall aid activities declined and the Western donors sharply reduced their agricultural aid. In its history, spanning over four decades, more than 44 African countries have hosted Chinese agricultural aid projects and developed more than 90 farms through aid projects.

⁷⁰ Bräutigam and Xiayang, 2009, p. 693.

⁷¹ See Alden and Hughes 2009 for a detailed discussion of how China’s “state-centric” principles of foreign policy have evolved over time and the implications of this for the China-Africa relationships.

⁷² An extract of the speech by Paul Kagame, President of Rwanda, reported in *The Guardian*, November 2nd 2009.

CONCLUDING REMARKS

In this paper, we have shown that China's domestic imperatives embedded in its “Going Out” strategy could explain some of the main reasons behind its new engagement with Africa. For pursuing this strategy, China has applied the “model of economic cooperation” employed by Japan in East Asia as a chosen modality, though there are considerable differences between Japanese and Chinese aid in their operational details beyond the apparent similarity, as discussed in Section 3 above. In this model foreign aid is viewed as a vanguard of FDI. Japan's aid to Southeast Asia with its focus on infrastructure development was indeed instrumental for building dense production networks in the Asia-Pacific region. While Japan itself has not actively followed this model in Africa so far, for various internal and external reasons, as explained above, for China the model has served its purpose well both as a strategic rationale and as an operational foundation for pursuing its chosen strategy – South-South economic cooperation based on mutual trust and benefits.

Chinese aid provided in a package deal with expansion in investment and trade and with no policy conditionality attached has given a fresh impetus and perspective to African development against the chequered history of aid relationships with traditional bilateral donor countries and multilateral institutions. The Chinese government has made it clear that it has no intention to impose its own development model as an alternative to “the Washington consensus or the Post-Washington Consensus”,⁷³ as it would breach the principle of no intervention in sovereign matters. This stance adopted by China would offer African countries an opportunity to gain a policy space that is desperately needed for exploring their own path of economic development. This potentially could assist in consolidating the foundation of nascent democracy in Africa by making policymakers accountable to their citizens for their reforms, rather than just to the donor community. Furthermore, since China's aid and investment have targeted two critical bottlenecks for African economic development – infrastructure and agriculture – there is hope that China's increasing engagement in Africa can alleviate these bottlenecks and that Africa can move one step closer to realizing the structural transformation of its economies and sharing benefits from economic globalization on a sustainable basis.

However, our analysis also points to several important issues that need to be addressed if the potential of a development dividend from Chinese aid is to be realized in Africa. First, in assessing the impact of Chinese aid for infrastructure-building on economic development in Africa, due attention should be given to the question whether or not infrastructure built under the “resources for infrastructure” modality could serve as a

73 See Kaplinsky and Messner 2008.

trigger to accelerate the process of economy-wide diversification rather than just as a mere facility to move resources from an extraction point to a shipment point for exports.

In relation to this question, it can be noted that the structure of Africa's trade with China so far remains fundamentally similar to that with the rest of the world. Africa's exports to China are overwhelmingly primary commodities. If they are to secure sustainable development, as discussed in Section 4 above, it is imperative for African economies to undergo structural transformation by diversifying their trade and production structures from the ones historically moulded in the colonial era. It is yet to be seen whether China could make a real difference to Africa's development by bringing about fundamental changes to the structure of its own bilateral trade with Africa beyond primary commodities.

Certainly, a more detailed analysis based on case studies is required if we are to be able to assess the potential of China's contribution in this aspect. For the time being it can be stated that, if it is designed and executed with long-term development objectives in mind, Chinese aid, by alleviating huge infrastructure deficits, could potentially make a significant contribution to developing a dense network of production sites and markets within each country as well as regional markets beyond national boundaries. Given the small size of each national market in Africa, infrastructures that facilitate a deeper regional integration would make a big impact on the future of the continent.

Second, while the Chinese government shows its readiness to deepen and move forward its model of South-South economic cooperation by achieving a mutually beneficial outcome at the governmental macro levels, the non-transparency surrounding the deals that the Chinese government strikes with many African leaders has often left local stakeholders alienated from the process, and created tensions. These problems arising from the decision-making processes are further compounded by numerous frictions and backlashes caused by shortcomings on the ground, discussed in this paper. This shows how important it is to give careful re-examination to and appraise the management practices and approaches adopted by Chinese firms, with a view to making them more sensitive to the concerns and interests of local stakeholders at every stage of operations. As with any other development project, aid can work for development on a sustainable basis only if the interests of local communities and stakeholders are placed at its centre. This should be addressed not only in official rhetoric, which is often the case in international aid, but in reality as well.

Moreover, we suggest that the operational practices adopted by Chinese firms on the ground should be critically reappraised too. Several case studies suggest that in the quest for quick turnovers and high returns Chinese firms tend to place an emphasis on outcomes rather than processes in project implementation.⁷⁴ However, as discussed in Nissanke,⁷⁵ successful development depends on long-term processes of institutional development, and

⁷⁴ Haglund, 2009.

⁷⁵ 2010.

hence the effectiveness of aid as a contribution to national development processes hinges critically on whether aid providers and receivers can form genuine partnerships to stimulate such processes. Seen from this institutional perspective, the management of aid-funded projects should pay due attention not only to outcome/output but to processes. Further, the prevailing practice of the wide use of Chinese workers and materials should be gradually phased out, as it fails in creating much-needed job opportunities for local workers, as well as wider spill over effects and technology/knowledge transfer. Chinese aid should be also seen as one of the critical mechanisms for the transfer and accumulation of knowledge and expertise in the learning-by-doing process that is expected of foreign aid and direct investment.

In short, there is a case for Chinese participants in aid-funded projects to act as a development partner, rather than merely acting as they would in any other business venture. This will allow China's economic cooperation to create an environment that is conducive to shared learning on the ground. This case is based on our view that the potential beneficial effects of aid on the development process are contingent upon the nature of the partnerships formed in the process. After all, long-term commitments by both local stakeholders and the providers of aid are vital for the sustainability of aid-funded projects.

Finally, as China applies a very different modality of engagements, involving very heterogeneous actors, African leaders and stakeholders have faced not only fresh opportunities but also new challenges. China's rising influence in the "international aid community" may involve many diverse effects and consequences, both positive and negative. It is important for African countries to utilize the positive effects as much as possible in advancing their development agenda. Given the highly complex nature of development processes and the mechanisms for achieving poverty reduction, it is desirable to have plural approaches to international aid. Unfortunately, until recently only a single aid model has dominated the discourse on "aid and development" in Africa, with the tacit acceptance of the dominance and universality of the Western aid model by the international aid community. The increasing importance of China's aid could provide an opportunity to challenge this dominance. The combination of Japanese and Chinese aid could offer an Eastern Asian model of development aid and provide African countries with a richer menu in public discourse on aid and development. This could also provide African policy-makers with a stronger leverage in negotiations with the "international aid community".

After all, it is up to the Africans to take a strategic position towards the new opportunities presented by China's eagerness in engaging with Africa in economic cooperation. Today, the China-African economic relationships are both diverse and dynamic, constantly evolving. The time is ripe for African policymakers to seize upon their newly acquired stronger negotiating position and present both traditional Western donors and their new Asian partners with their home-grown development visions and strategies, as well as building a genuine development partnership that is based on mutual respect and trust for the sake of Africa's future.

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